UNCTAD. *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development.* New York: UNCTAD, 2000. xviii+337 pages. Paperback. Price not given.

Foreign aid has given way to foreign direct investment (FDI) as a means of stimulating growth in not only the developed countries but also the developing ones. FDI can be divided into two components: direct and portfolio. Direct investment is concerned with the establishment of physical assets in the shape of plants and equipment which in turn are used to produce commodities. The establishment of plants and equipment involves technology and raises the issue of technology transfer. Portfolio investment, on the other hand, is largely financial, with investments being made on the stock market. These investments, given the interlinkages between the main financial centres these days, are volatile because international capital is highly mobile. Both direct and portfolio investment can be made by public authorities, multinational firms, and individuals.

FDI can serve two purposes; as a means of augmenting domestic savings, and as a means of financing for a deficit in the balance of payments. The current issue of the *World Investment Report 2000* published by the UNCTAD is the tenth in the series. What binds all these together is the common subject of foreign direct investment. For example, the 1999 report discussed FDI and the challenge of development [UNCTAD (1999)]. The 1998 report identified the trends and determinants of FDI [UNCTAD (1998)]. Another report [UNCTAD (1995)] has looked at the competitiveness of transnational corporations (TNCs), international firms that are responsible for major chunks of FDI. Employment considerations and related issues formed the main subject of analysis in 1994 [UNCTAD (1994)]. The topics raised every year form just one component, or one aspect, of FDI and its possible impact, either positive or negative.

World Investment Report 2000 deals with cross-border mergers and acquisitions for development. This is an important subject as in recent years the TNCs have been busily engaged in acquiring assets that do not respect national boundaries. For example, one can look to the mergers taking place in the automobile, aerospace, defence, and pharmaceutical sectors, to name a few. These mergers and acquisitions then result in much larger organisations with enhanced economic and political leverage. A possible consequence of this is the collusion in price fixing, higher profits, and general losses to the consumer through higher prices than would otherwise have been the case if competitive conditions prevailed. On the other hand, larger organisations are theoretically able to exploit their size by being able to produce more at lower prices, and also by engaging in substantive research and development. This can lead to the identification of new products and processes that can further enhance the rates of economic growth, within countries as well as globally. As cross-border mergers and acquisitions are on the rise, it is important that an institutional set-up, particularly at the international level, be established that safeguards the interests of consumers, employees, and any other entity that may be affected adversely by this phenomenon.

The report can be divided into two parts. The first part consists of an overview of global and regional trends. It is interesting to note that there are about 63,000 parent firms with 690,000 foreign affiliates (p. xv) engaged in production across the globe. A further detailed study reveals that among the top 100 TNCs (of which General Electric of the USA is the largest) employ over 6 million persons and have sales of $2 trillion (p. xv). The top 100 TNCs operate in the following sectors of the international economy: electronics and electrical equipment, automobiles, petroleum, chemicals, and pharmaceutical products. These are, of course, non-financial TNCs.

Other facts that emerge from this *Report* show that the TNCs from developing countries and from Central and Eastern Europe are now becoming active players on the world stage, although size-wise they may not qualify alongside the larger TNCs of Western Europe, Japan, and the United States of America. However, the growth in the number and activities of the TNCs has been possible because of the changes brought about in the regulatory environment over the past decade or more. Greater liberalisation and the privatisation of state-owned enterprises has encouraged the growth of international production.

Further facts revealed in the *Report* show that FDI flows touched the $865 billion mark (p. 3), of which some $208 billion went to the developing countries. The major players in FDI still continue to be the developed countries; the USA, the UK, the European Union, and Japan. The countries of East and South East Asia (Hong Kong, China; Republic of Korea, Singapore; and "Taiwan, Province of China") saw increases in FDI in 1999 after significant declines in 1998. FDI flows to South Asia fell by 13 percent in 1999 (p. xvii), whereas in Central Asia also shortfalls occurred in FDI flows as compared to the previous year. However, the overall trends show that the activities of the TNCs through the globalisation of production are playing a major role in the growth of the international economy. The development of new technologies as well as the increased competitiveness within the framework of a decentralised and liberalised economic system have contributed to this phenomenon.

Part II of the *Report* specifically examines cross-border mergers and acquisitions. Definitions and classifications are presented. Two types of FDI are involved here: greenfield investment, which is basically establishing new plants, and purchase of an existing local establishment or firm. Many of the mergers and acquisitions belong to the second type, and there can be hostile takeovers as well as friendly ones. Another issue raised here is that of data—or more precisely, how to separate cross-border mergers from greenfield investment practically, as the existing statistics on the subject are not clear on the distinction. In other words, different countries are maintaining different data bases which are difficult to interpret.

The *World Investment Report 2000* is one comprehensive document which analyses the important topic of cross-border mergers and acquisitions. The *Report* not only highlights the strengths of this form of FDI but also its weaknesses. It notes that the TNCs are growing in size and have, consequently, great economic leverage at their disposal. This can be deleterious for nation-states particularly in the developing world, where national economic policies can be subverted and economic sovereignty threatened. A side-effect for consumers is higher prices and, possibly, lower quality. For example, in Pakistan, currently, the two major brands of tea are being marketed by one single TNC. Before their takeover, both these individual brands had their own quality, which was reasonably consistent and distinct. But after the TNC takeover, not only has their quality suffered but the price has also risen as the TNC enjoys nearly monopolistic control over the local market. Thus, the issue of competition and regulation is important and needs to be institutionalised at the international level so that the unbridled economic power of the TNCs can be checked. Cross-border mergers and acquisitions, whether hostile or otherwise, result in rationalisation of the merged enterprise. This usually means laying off workers and contributing to unemployment. The argument offered in favour of the rationalisation is that of economic efficiency.

The *Report* also mentions a number of interesting items. For example, Japan is generally considered to be a 'closed' economy but the number of mergers and acquisitions taking place there belies this claim. The Japanese economy is rather more open than closed. What is worrisome is the skewed distribution of FDI flows to the developed countries; the developing countries, particularly in the South Asian region and Africa, have not seen much FDI. Perhaps local conditions are to blame, for instance the lack of consistent economic policies; political disturbance; lack of infrastructure; etc.

The *Report,* as mentioned earlier, is not only comprehensive and incisive but also very informative and authoritative, particularly for a specialist audience. The use of boxes, figures, graphs, and diagrams highlights and illustrates the main text. Furthermore, the statistical data presented in Annex B would be of great use to researchers in the area of foreign investment.

Mir Annice Mahmood

Pakistan Institute of Development Economics,
Islamabad.

REFERENCES

UNCTAD (1994) *World Investment Report 1994: Transnational Corporations Employment and the Workplace.* New York and Geneva: UNCTAD.

UNCTAD (1995) *World Investment Report 1995: Transnational Corporations and Competitiveness:* New York and Geneva: UNCTAD.

UNCTAD (1998) *World Investment Report 1998: Trends and Determinants.* New York and Geneva: UNCTAD.

UNCTAD (1999) *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development.* New York and Geneva: UNCTAD.